Senator Kent Conrad (D-ND) - Senate Floor Statements on Estate Tax Repeal - 6/11/02

Mr. CONRAD. Mr. President, this afternoon we begin a very important debate on the question of the estate tax. My friends on the other side characterize it as a death tax. It is really not. There is no such thing as a death tax in America. Nobody pays taxes at death. There is an estate tax. For estates over a certain amount, they contribute to the revenue of the Federal Government by paying an estate tax.

The problem with the current estate tax is that it cuts in at too low a level. Currently, estates begin to be taxed at about $1 million. The fact is, only about 2 percent of all estates pay any tax, even under that circumstance. But with what has happened in the national economy, many of us believe we do need to reform the estate tax--not eliminate it but reform it.

Why? First of all, because it is not fair to have the estate tax cut in at that level, given the increase in assets that has occurred in the country in the last decade. At the same time, it does not make much sense to us to eliminate the estate tax completely because of the cost. What our friends on the other side of the aisle are proposing is a $100 billion cost in this decade and a $740 billion cost in the next decade, right at the time the baby boom generation retires--all of this in the context of budget deficits as far as we can see.

I believe we ought to reform the estate tax. I believe we ought to increase the level at which it cuts in on individuals and their families. But to eliminate the estate tax and dig the deficit hole deeper, put us deeper into debt and take it all out of Social Security, I do not think is defensible.

Last year, the President said this about paying down the debt:

My budget pays down a record amount of national debt. We will pay off $2 trillion of debt over the next decade. That will be the largest debt reduction of any country, ever. Future generations should not be forced to pay back money that we have borrowed. We owe this kind of responsibility to our children and grandchildren.

What a difference a year makes, because just a few hours ago we responded to the President's request for the biggest increase in the debt--the second biggest increase in the debt in our Nation's history. That is what we did just hours ago. Has this Chamber already forgotten? Have we already forgotten that we just responded to the President, who said he was going to pay down the biggest amount of debt in our Nation's history, in fact he said the biggest amount of any country ever? And now, just 2 hours ago, 3 hours ago, we responded to his request for not debt paydown but the biggest expansion of the debt--the second biggest expansion in our Nation's history?

Here is the comparison. The only time we had a bigger increase in the debt than what the President is seeking was when his father was President. When his father was President, we had to increase the debt by $915 billion, in November of 1990. Now this President comes and asks for a $750 billion increase in the debt. That is after telling us last year he was going to pay down the debt by the maximum amount possible, the biggest of any country ever.

Last year, the President told us it would be 7 years before we would have to increase any debt. In August of last year, he told us it would be 3 years before any increase in the debt. In December 2001, he told us 2 months. Right now, the Treasury Department is using extraordinary means to finance the debt of the United States. They are taking from the retirement funds of Federal employees to cover the Federal debt.

Let me say this. If any private company tried that, they would be on their way to a Federal facility, but it would not be the White House of the United States, it would not be the Congress of the United States, they would be on their way to a Federal penitentiary because that is a violation of Federal law. But that is what is going on right now.

You recall in the previous administration they did that for a short time and in the House of Representatives our friends across the aisle filed impeachment proceedings against the Secretary of the Treasury for doing what this Secretary of the Treasury is now doing.

Can we forget what just happened a few hours ago, when there was a vote here to increase the debt of the United

States by $450 billion? The President requested $750 billion in increased debt. We increased it $450 billion.

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Mr. CONRAD. Mr. President, remember last year? We have to put this in context. We have to think about the circumstance within which we are making decisions. Last year, we were told there was going to be $5.6 trillion of surpluses over the next decade. That is what we were told just last year. Now we look at the budget circumstance of the United States, and the surpluses are all gone. There are no surpluses. In fact, if we look at the President's budget and we look at the latest shortfall in revenues and we look at the stimulus package just passed, what we see over the next decade is not $5.6 trillion of surpluses, what we see is $600 billion of deficits. It is a pretty stunning turnaround. In 1 year we go from $5.6 trillion of surpluses to $600 billion of deficits. And our friends on the other side want to dig the hole much deeper--much deeper--by adding $100 billion, and another cost in the next 10 years of $740 billion, right at the time the baby boom generation retires. It does not make much sense to me to eliminate this estate tax instead of reforming it.

Yes, let's address the problems that exist with the estate tax. Let's increase the amount of the exemption in a responsible and rational way. But let's not dig the hole deeper and deeper with respect to the deficits and debt of this country.

Here is where we are, looking back to 1992, when there were deep deficits, not counting Social Security. We were able, over a period of years, to pull our country out of this deficit and debt morass. We were able to run surpluses for 3 years. But look at what happened last year. We are right back in the soup. For anybody who thinks it is going to be short-lived, here is the hard reality. We are poised to be back in deficit for the entire next decade--billions, hundreds of billions of dollars of deficit and debt.

Again, I say our friends on the other side, in their proposal, say: Don't worry about that; don't worry about all this red ink; don't worry about all these deficits; don't worry about piling up the debt; let's just go out there and cut some more taxes and not pay for it. That is their answer. They will add another $100 billion to these deficits over the next decade. But what is really stunning is in the second 10-year period they would take another $740 billion right out of Social Security trust funds

There is an alternative that deals both with the question of reforming the estate tax and making it more fair and at the same time reducing the cost dramatically over what our friends on the other side of the aisle are proposing.

What I am proposing is immediate relief. Take the estate tax exemption to $3 million next year--$1 million now, and increase that to $3 million next year--$6 million for a couple for 2009, and thereafter the exemption would increase to $3.5 million. The maximum estate tax rate would be frozen at 50 percent. We retain the stepped-up basis.

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Mr. CONRAD. Mr. President, we have retained the stepped-up basis. The other side's proposal goes to what is called a carryover basis.

This is a hugely important issue that people should understand. We will have a chance to go into it as we proceed.

Let me say at this point that in a stepped-up basis, when a relative dies, you inherit their property at its value at the time they die.

That is a very important concept to understand. Let me repeat it.

Under a stepped-up basis, you pay future taxes based on the value of the property of the loved one that is giving you the property. You pay on the basis of the value of the property at the time they died--not what they paid for it but the value at the time they died.

Under the alternative proposal offered on the other side, you are going to go to what is called a carryover basis.

You are not going to pay future taxes based on the value at the time that your relative died. You are going to go back to the value of what they paid for it.

Let us say you inherit a farm. You don't inherit the value of the farm at the time your father died or your grandfather died. You are going to pay future taxes based on what they paid for the property.

There is a big difference between our proposals. It is an accounting nightmare.

What our friends are proposing we tried before--the carryover basis, going back to what grandpa paid for a property. It was an administrative nightmare for all concerned. And we quickly abandoned it. They want to go back to the bad, old days.

Not only does this proposal fundamentally reform the estate tax and make it more fair and avoid going to carryover basis, but it also saves hundreds of billions of dollars in the second decade. In this decade it saves $87 billion. The cost of our proposal in this decade is $12.5 billion. The cost of their proposal is $99.4 billion.

Under the proposal I am making, by 2009, only .3 percent of estates will face any estate tax liability. That means 99.7 percent of estates would pay zero, nothing, have no estate tax liability.

We will have more to say about this as we go forward.

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Mr. CONRAD. Madam President, let me conclude this debate as I began. I believe our votes must be informed by the current fiscal condition of the country. As the President said to us last year, his budget was going to pay off $2 trillion of debt over the next decade. He said, at that time, that would be the largest debt reduction of any country ever.

Now the President comes to us 1 year later and says: Whoops, forget about that. Forget about maximum paydown of the debt. Forget about paying down more debt than any country ever. Instead of paying down debt, I am asking you, Members of Congress, for the second biggest increase in the debt in our Nation's history.

The only bigger request for an increase in the debt was made by the current President's father when he was President. He asked for and received a $915 billion increase in the national debt in one fell swoop, in November of 1990.

Now comes this President and he asks for a $750 billion increase in the debt, the second biggest in our Nation's history.

We all have to think a moment about the changed circumstances. Just hours ago, this Chamber voted to increase this Nation's debt by $450 billion. Now our colleagues on the other side are here saying they want to increase the debt another $100 billion in this 10 years, by another $740 billion in the second decade.

Let's look at where we are and where we are headed. This chart shows that from 1992 to 2000 we pulled out of deficit. We got ourselves into circumstances in which we were running surpluses. Last year with the President's budget plan we plunged back into deficit, and we now are told that we can expect deficits the entire rest of the decade. That is before their proposal to dig the hole even deeper. And the outlook for the years beyond is even more serious.

That brings us to the question of what do we do on the estate tax. I acknowledge we need to reform the estate tax--$1 million is too low for a tax to be imposed. So I proposed that next year we go to $3 million of exemption for an individual estate; $6 million for a couple. They would pay zero under my proposal. A couple would pay no estate tax up to $6 million. Our friends on the other side, they don't get to $3 million until 2009.

My proposal also freezes the maximum estate tax rate at 50 percent. It retains stepped-up basis. I know that is a confusing term, but it is an important one. What it means is that in the future, you will pay taxes on what you inherit based on the value at the time you inherit it, not what grandpa paid for the property, not what grandma paid for the property, but what it was worth when it passed to you.

That is a very important difference between their proposal and mine. While my proposal is more generous to taxpayers in the short term, it is also more fiscally responsible because we don't eliminate the estate tax completely as their proposal does. They are proposing to eliminate the estate tax completely after the year 2010. My proposal saves hundreds of billions of dollars that otherwise are going to come straight out of Social Security. There is no other place for it to come from. They deny it. They say this has no effect on Social Security. Really? Where is the money coming from? There is only one place it can come from; that is, straight out of Social Security.

My proposal will reduce the number of estates that are taxable from the current level, which is 2 percent. Only 2 percent of all estates in America have any tax. I would reduce that to three-tenths of 1 percent, but at the same time save the fiscal position of the country.

There is no question that what they are talking about--estate tax repeal--raids Social Security trust funds. Look at what it does. Their idea of fairness is to eliminate the estate taxes for somebody like Mr. Skilling, former CEO of Enron, who would save under their plan an estimated at $55 million. That is equivalent to all of the Social Security taxes paid in a year by 30,000 American people earning $30,000.

They say their proposal is fair. They say their proposal is equitable. I don't see it. Taking all of the taxes from 30,000 people earning $30,000 a year to eliminate the estate taxes of Mr. Skilling is not fair.